The Processed Food and Beverage Market in China

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The Processed Food and Beverage Market in China

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THE PROCESSED FOOD AND BEVERAGE MARKET IN CHINA

Team Canada Inc • Équipe Canada inc

EXECUTIVE SUMMARY

As the world's most populous country, China has enormous potential for the sale of processed foods and beverages. Although consumers have a long tradition of primarily eating unprocessed foods, consumers have shown a growing interest in more processed products. Only 20% of China's farm products are processed, compared to as much as 90% in other countries. As a result, processed foods account for less than 30% of the food consumed in China compared to roughly 80% in North America.

It is estimated that Chinese consumers spend nearly $300 billion[1] annually on food products. However, there is a significant discrepancy in the ability of consumers to purchase imported or branded products. Consumers in cities such as Beijing, Shanghai, and Guangzhou generally have substantially higher incomes than consumers who live in more rural areas. Presently, the majority of consumers outside of major urban centres cannot afford imported processed foods. However, the number of consumers who can afford these products is forecast to more than double within the next 10 years to over 500 million people.

This report highlights opportunities within processed food sectors such as non-alcoholic beverages, alcoholic beverages, health foods, canned food, snack food, confectionery, and processing and packaging technology and equipment.

With China's impending accession to the WTO, and the resulting decrease in tariff and non-tariff barriers, foreign manufacturers of processed foods and beverages are actively researching and pursuing potential opportunities. Currently, the United States is the largest supplier of processed foods to China. Although this is not expected to change in the near future, other countries such as Australia, Japan, South Korea, Taiwan, and a number of countries from the EU are looking to increase exports of processed foods to China.

China's accession to the WTO should help to reduce the risk of doing business in China and encourage increased trade and investment flows. Tariffs on many processed foods and beverages will be progressively lowered over a five-year period. In addition, China has negotiated a number of tariff rate concessions in its bilateral WTO

[1] All monetary amounts are expressed in Canadian dollars, unless otherwise indicated. The conversion rate to Canadian dollars is based on IDD Information Services, *Tradeline*, July 2000.

agreements with member countries. The most favourable concession for any item will apply to all member countries once China joins the WTO.

The domestic industry is also expected to undergo significant changes in the coming years. In many sectors, there are a handful of large producers which account for 20-40% of sales with no one producer accounting for more than 10-15% of the total market. These manufacturers generally produce adequate to good quality products. Typically, over half of sales within each products market are split between a large number of small, regional producers. Although some of these companies produce good quality products, many supply low-priced, low-quality goods. Increased competition from foreign suppliers will force domestic producers to improve their products as well as their business practices, or risk losing market share. However, many domestic producers will be able to continue to operate for years to come as imported goods will continue to be too expensive for a large portion of the population.

The Chinese distribution system can be a challenge to navigate for new exporters. For the most part, processed foods are still shipped through Hong Kong. Some large, experienced exporters have begun dealing directly with Chinese agents while smaller exporters tend to prefer to reduce their risks by shipping through Hong Kong. China currently lacks an efficient, reliable distribution system. As a result, coastal cities, which tend to be more prosperous than inland areas, are a good area in which to introduce a product to the Chinese market.

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THE PROCESSED FOOD AND BEVERAGE MARKET IN CHINA

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MARKET OVERVIEW

With a population of nearly 1.3 billion, China represents a potentially huge market for processed foods. Growing interest in processed foods, higher disposable incomes and China's impending accession to the WTO should also lead to increased opportunities for exporters of processed foods.

In general, China's economy has experienced strong growth over the past two decades which is expected to continue for the foreseeable future. Between 1980 and 1995, China's gross domestic product (GDP) quadrupled. For the first six months of the year 2000, GDP is estimated to have grown by 8.2%, up slightly from the previous two years' growth of 7.1% in 1999, and 7.2% in 1998. Individual cities such as Shanghai, Guangzhou and Shenzhen have experienced stronger-than-average growth, increasing by 11% to 14% annually.

Chinese consumers have a long tradition of primarily eating unprocessed foods such as grains, fruits, and vegetables. As a result, processed foods are not nearly as prevalent in the Chinese diet as they are elsewhere in the world. Presently, only 20% of China's farm products are processed, compared to as much as 90% in other countries. Not surprisingly, processed foods account for less than 30% of the food consumed in China compared to 80% in North America.

In 1999, China imported nearly $2.7 billion worth of Canadian products. Although agricultural products account for a significant share of total exports, it is estimated that processed foods account for less than 20% of these exports.

Chinese consumers spend nearly $300 billion annually on food products. However, there is a sizeable discrepancy in the ability of consumers to purchase imported or branded processed foods. It is estimated that nearly 60% of the Chinese population lives in rural areas with average annual incomes of approximately $385. By contrast, average urban incomes were $976 in 1999. Nevertheless, residents in China's 10 largest cities have significantly higher average incomes of $3,965. Presently, there are 200 million consumers who are considered to have middle to high incomes although this is forecast to increase to 500 million consumers by 2005.

Canadian exporters should note that by deciding to enter the Chinese market, this will not immediately allow access to 1.3 billion potential consumers. There is a significant

degree of regional diversity within the country with both formal and informal barriers to trade between regions. Typically, domestic producers, agents and distributors tend to focus on selling a product within one region or even within one city with very little national distribution. Therefore, it is recommended that Canadian exporters attempt to establish their product(s) within one of the more affluent port cities such as Shanghai or Guangzhou which have a significant share of the population which can afford imported, processed foods. Only after a product is deemed to be successful in one city/region should exporters consider expanding the scope of their exports.

Unlike many other areas of the world, particularly Europe, China has shown a significant interest in genetically modified (GM) foods. Both Chinese consumers and government officials have rejected food safety fears that have developed in other countries. The basis for China's acceptance of GM foods lies in the fact that the country accounts for roughly 23% of the world's population while only holding approximately 7% of the arable land. GM crops, which produce higher yields than conventionally produced foods with usually lower inputs (pesticides, fertilizers, fuel, etc.), allow China to be as self-sufficient as possible. It is estimated that by 2010, half of China's farm land will be dedicated to growing GM foods.

Advertising

For a product to succeed in the Chinese market, a significant amount of money and planning must be invested into promotion and advertising. Chinese suppliers, distributors and retailers will offer a certain degree of help, although exporters must take the initiative in promoting their products.

Television advertising is the best way to reach the mass market in large cities, and can be a key to increasing brand awareness and establishing brand loyalty among younger consumers, who tend to be more likely to purchase new, imported foods. However, exporters should note that in some cases, the cost involved in advertising can be prohibitively high. While all forms of "comparative advertising" are banned, foreign advertisers can be successful by emphasizing quality and the image associated with the product. Television advertising requires covering a broad range of channels. Television is almost ubiquitous in China, with 83% of rural and 98% of urban households owning a television set. Across the nation, 94% of households either own or at least occasionally watch television.

Advertising in China's major cities can be expensive. This has led many smaller consumer goods producers to focus on smaller cities. For example, some companies begin advertising in cities such as Tianjin, Wuhan, Xian, Chengdu, Qingdao, Dalian Hangzhou, and Harbin, where advertising costs are only one-tenth the price of advertising in Shanghai, Beijing or Guangzhou. The aforementioned cities, although smaller than Shanghai and Beijing, are still sizeable markets by North American standards, with populations exceeding 2 million. The popularity and brand awareness of

products can then filter back into the major urban centres, creating a well-known product.

Radio and outdoor advertising is also becoming increasingly popular. Wall posters, billboards, bus shelters and lamp post are all popular methods of outdoor advertising. Outdoor advertising is a longer-term investment, but can be ineffective if not used in conjunction with strong in-store promotions and point-of-sale material. The producer must be able to create brand recognition among consumers.

In-store promotions and sampling are extremely useful ways to generate interest in a product. Many retail outlets allow foreign companies to set up in-store marketing and promotions for a small fee. Companies can promote their products as they wish, through the use of "promotion girls" who actively sell the products. This type of advertising not only allows consumers to sample products before deciding whether to buy, but it also ensures that consumers are given accurate instructions as to how a product should be prepared.

Regional Chinese Markets

Existing access conditions may make it relatively difficult and costly for exporters to test products in the Chinese market. This is particularly relevant since the Chinese are such a broad and diverse group, whose tastes are changing rapidly as the result of increased incomes, travel, and general exposure to new products.

Emphasis must be placed on the fact that China is not one single market, but is composed of distinctive regional markets. The central government seeks to establish national policies for the development of key sectors such as agriculture, oil and gas, electricity, and communications. Nevertheless, most business is conducted at the provincial and regional level. Major contracts, particularly those within the state plan, are still subject to review by central authorities, but decentralization is proceeding rapidly.

It is suggested that companies look closely at a number of regional Chinese markets and perhaps compare them to Asia's other midrange economies. These regions include:

- Northeast - Heilongjiang, Jilin, and Liaoning;
- Beijing - Hebei, Beijing, Tianjin, and Shandong;
- Central Provinces - Shaanxi, Henan, Hubei, Anhui, Hunan, and Jiangxi;
- Sichuan;
- Greater Shanghai - Shanghai, Jiangsu, and Zhejiang; and
- Greater Guangdong - Guangdong, Fujian, and Hainan.

Each of these regions has a population of over 100 million and gross domestic products exceeding US$20 billion. The regions of Guangdong, Shanghai, and Beijing are the largest markets. The Central Provinces and Sichuan have low per-capita incomes but population density may create solid returns in future consumer markets. For a more in-depth analysis on some of China's more attractive regions it is recommended that you read: *The Yangtze Delta Food Market, Hong Kong Agri-food Market Summary, Summary of Guangdong's Food Market, The Agri-food Market in Northern China.*

After having focussed economic resources on coastal areas, China decided to accelerate development of its western regions in 1999. The development, and preferential policies, including tax breaks for foreign-invested enterprises, are meant to stimulate development in the 11 provinces, autonomous regions and municipalities. At least US$12 billion will be provided to these regions, which lag the east by up to 20 years in development. Currently, per capita GDP in the western regions is only 60% of the national average. Infrastructure construction, including highways, bridges and railways will be improved, and environmental protection will be highlighted in the development plan. Undoubtedly, there will be opportunities for foreign involvement in assisting in the development of these areas. A common feature of the western regions, however, is a severe lack of moisture for efficient agricultural production, which is probably the single largest drawback to successful investment in agricultural projects in these areas.

Key Factors Shaping Market Growth

Traditionally, sales of many processed foods, such as confectionery and snack foods, have been substantially higher during seasonal holidays or festivals. Gift-giving is customary and imported or brand-name processed foods continue to be popular gifts for special occasions. Exporters should consider entering the market, or promoting heavily between fall and spring, a period which includes National Day, New Year's Day, and the Spring Festival. Some products have recorded 30-50% of their annual sales during these few months.

Developing brand awareness among Chinese consumers is essential for nearly all processed foods to succeed. In recent years, Chinese consumers have become acutely brand-conscious. Consumers are constantly being influenced to purchase new, less-expensive, or different products. However, many foreign products which may be as good, or better quality, than existing products do not succeed in the Chinese market simply due to a lack of product marketing or advertising to build brand awareness. Exporters must be willing to provide ample support for their products in order to develop brand recognition among consumers. Although some products experience success relatively quickly after first appearing in the market, most products take months or years to develop a strong consumer base. Product samples and small gifts in packages, such as toys, have proved to be extremely successful in attracting consumers.

With brand awareness playing such a key role in the success of imported processed foods, many small Chinese producers imitate the packaging and presentation of popular brands in an attempt to fool consumers. Unfortunately, these products, which are offered at a lower price, are usually poor in quality and as a result, damage the reputation of good quality products. This hinders the growth of many sectors within the processed food industry as consumers are often wary of trying other brands after having a bad experience with one product.

Taste preferences can vary significantly both from one area of the country to another and between Chinese and Canadian consumers. As a result, before exporting to China, many producers of processed foods and beverages conduct taste tests to determine if their product(s) needs any slight changes in an attempt to increase appeal among Chinese consumers. The flavour of many products is altered before export to China. Before shipping, it is recommended that Canadian exporters conduct taste tests in potential markets to gauge consumer acceptance of a product. Canadian exporters may also want to consider conducting taste tests among Chinese immigrants to Canada. This would be far less costly than testing products in China while giving exporters a sense of consumer taste preferences.

Historically, Chinese consumers have shown a lower level of interest in healthy foods than many countries in the western hemisphere, however, consumer demand for healthier products is increasing. Products that advertise the fact that they are organic, low in fat, low in sugar or have other health benefits, are gaining increased exposure in the market.

Exporters of chilled or frozen products should note that growth of the Chinese market is somewhat hindered by a shortage of appliances such as refrigerators. While most households in such major centres as Beijing and Shanghai have refrigerators, only 10% of rural households do. In smaller urban centres, between 40% and 80% of households have refrigerators.

China's Accession to the World Trade Organization

China has made a number of trade-related commitments to WTO members that are expected to take effect when China accedes to the organization. These include tariff concessions, as well as commitments to apply WTO rules relating to subsidies, standards, intellectual property, import licensing, trade-related investment measures and sanitary and phytosanitary measures. China will also be bound by fundamental WTO principles that will require the country to strengthen commercial legal procedures and improve transparency.

China's WTO commitments should help to reduce the risk of doing business in China and encourage increased trade and investment flows. However, most commitments will

be phased in over time. In the case of lower tariff rates, most new bound rates[2] will be phased in over five equal, annual increments from the date of accession.

China has negotiated a number of tariff rate concessions in its bilateral WTO agreements with member countries. The most favourable concession for any item will apply to all member countries once China joins the WTO.

On November 26, 1999, Canada and China concluded a bilateral agreement providing for improved market access for a range of goods and services. The products which will be most significantly affected by this agreement are primary agricultural products such as canola, canola oil, wheat, barley, malt, feed peas, alfalfa pellets, seed potatoes, beef and pork, along with a wide range of other products. China will also adopt tariff rate quotas (TRQs) for a limited number of sensitive sectors. The only two Canadian products affected by TRQs are canola oil and wheat.

Opportunities

Although the most promising opportunities for Canadian exporters may be through a joint venture with a Chinese partner, there are also niche opportunities for value-added products exported directly from Canada. However, exporters will still be required to develop a strong relationship with a local representative/partner in order to respond to consumer demands and to help navigate products through the complex distribution system.

When reviewing this section, exporters should keep in mind that export statistics only take into account those products which are shipped directly to China. A significant portion of Chinese imports are transshipped through Hong Kong and are therefore registered as exports to Hong Kong.

Non-Alcoholic Beverages

Carbonated Soft Drinks

Carbonates are the largest subsector within the soft drink industry accounting for 46% of total soft drink sales. Colas are, by far, the most popular flavour with consumers. Other common flavours include orange, lemon/lime, plum, and peach. Some consumers are more inclined to purchase the latter products as they believe colas may contain ingredients which are bad for their health.

[2] Bound rates are tariff rates resulting from negotiations or accessions that are incorporated as part of a country's schedule of concessions. If China were to raise a tariff above the agreed upon bound rate, the affected countries would have the right to retaliate against an equivalent value of the offending country's exports or receive compensation, usually in the form of reduced tariffs of other products they export to the offending country.

Not surprisingly, Coca Cola and PepsiCo are the dominant suppliers within this market accounting for nearly half of carbonated beverage sales. Both of these companies have invested massive amounts of capital in marketing, the development of production facilities, and the establishment distribution networks. Both Coca-Cola and PepsiCo provided incentives such as updated equipment and help with marketing techniques to local partners in China.

Shanghai Shenmei Beverage & Food Co. Ltd., Shanghai Zhenguanghe Beverage Group, and Guangdong Jianlibao Group Ltd. Co are the three largest domestic suppliers, each holding a market share of slightly more than 4%. In 1998, Wahaha, a subsidiary of Danone, released its Feichang cola. This product has already gained a small share of the market due to its lower price and well established distribution system.

Volume sales of carbonated beverages are expected to more than double within the next five years. However, it is unlikely that foreign manufacturer will be able to compete with Coca-Cola and PepsiCo in the carbonated beverage sector.

Bottled Water

The bottled water market accounts for roughly one-third of the total soft drink market and has been growing at a rate of 20% annually in recent years. Purified drinking water accounts for 60% of total sales while mineral water makes up the remaining share of sales. Sales of flavoured waters were inconsequential, largely due to a lack of product knowledge.

Bottled water is one of the few items which are bought in family-sized containers. Although this format represents a small share of total sales, their popularity is growing. Jugs of water are typically delivered, free of charge, to consumers homes, thereby eliminating the need for consumers to carry large, heavy jugs of water home from retail outlets.

The growth of bottled water consumption has been driven by widespread pollution of tap water and by increased consumer health consciousness. In addition, many Chinese consumers are lactose intolerant which has made mineral waters a popular source of calcium. Some consumers now use bottled water for cooking as well as regular consumption. However, levels of bottled water consumption remain relatively low. Annual per capita consumption is estimated to be 3 litres, compared to 45 litres in the U.S. and 111 litres in France. Therefore, there are significant opportunities for the growth of bottled water sales in China.

In 1999, domestic production of bottled water exceeded 4 million tonnes. The domestic industry is fragmented among many local producers which service small regions of the country. Unfortunately, the quality of many products is poor, which has hampered the growth of the overall market.

Although reported market shares are widely disputed, the largest companies, and their respective shares of the bottled water market, are the Shanghai Waterman Distilled Water Co. Ltd. (14%), Danone (11%), and Watson (7%). Other major suppliers include the Guangdong Nowaday Group Co., the Zhejiang Yangshengtang Food Co. Ltd., the Shanghai Bichun Drinking Water Co. Ltd., and Nestlé.

In 1999, imports of bottled water were valued at less than $1.5 million. France accounted for over 80% of imports while Canada was the third largest exporter with exports totalling $60,000 (4%).

Juices

Chinese juice consumption is fairly low, accounting for roughly 10-11% of total soft drink consumption. Annual per capita consumption of juices is slightly less than one litre, compared to between 10-12 litres in many European countries.

Obstacles to increased juice consumption include high prices, a poor distribution system, and the lack of a positive image. Although price of domestic juices has decreased in recent years, due to increased production of fruits and vegetables, juice is still a comparatively expensive drink. Also, the quality of domestically produced juices varies significantly from one manufacturer to the next. Imported juices can cost 2-3 times the price of domestically-produced products.

Although pasteurised products do not require cold storage/transportation facilities, the lack of an efficient distribution system for fresh products has a negative impact on juice sales.

Perhaps the greatest barrier to increased sales is the poor impression that Chinese consumers have of juices. Many consumers believe that fruit and vegetable juices provide little nutritional value compared to eating the actual products themselves. As a result, many consumers eat larger quantities of fruits and vegetables while only drinking juice to satisfy thirst, instead of viewing juice consumption as a healthy beverage alternative. Although advertisements for 100% fresh juices and products with added vitamins and minerals have increased sales considerably in recent years, manufacturers must continue to educate consumers in order to increase sales.

Competition within this market is mainly between domestic producers and foreign joint ventures. Table 1 outlines the top juice producers and their brands. Most brands are only available on a local/regional basis with only a few brands having established themselves nationally.

Table 1. Major Juice Producers Share of Fruit/Vegetable Juice Market, 1998.

Company	Key Brand	Market Share (%)
Coconut Palm Group Hai Kou Canned Food Factory	Ye Shu	7.0
Beijing Hui Yuan Fruit Juice Beverage Group	Hui Yuan	5.8
Shanghai Suntory-Meiling Food Beverage Co. Ltd.	Angel Kiss	4.6
Tropicana Beverages Greater China Ltd.	Dole	4.5
Great Lakes (Tianjin) Fresh Food & Juice Co. Ltd.	Great Lakes	4.4
Shanghai Jinjiang Kirin Beverage Co. Ltd.	Kirin	3.5
Coca-Cola China Ltd.	Tian Yu Di	3.3
Others	n/a	66.9

Source: Euromonitor. *The Market for Soft Drinks in China*, January 2000.

Many consumers prefer fresh juices over those made from concentrate, which tend to be sweeter. Consumers believe fresh products are healthier than those made from frozen concentrate.

As is the case with many processed foods and beverages, small packages have proved to be most popular among consumers. In fact, individual serving sizes (250ml) account for the largest share of sales. Typically, only restaurants, bars or hotels purchase juice in package sizes of one litre or more.

Alcoholic Beverages

Beer

In 1999, production from China's more than 700 breweries totalled nearly 20.9 million tonnes, making China the second largest beer producer in the world behind only the United States. In 2000, beer production is forecast to exceed 22 million tonnes. China is expected to become the world's largest beer producer by 2003.

Although China is one of the world's top beer producers and consumption has increased by an average of 20% annually for the last decade, per capita consumption remains relatively low at 14 litres. Increases in beer consumption have also slowed in recent years, to a rate of 5-10% annually. However, beer remains the most widely consumed alcoholic beverage accounting for 70% of sales by volume but only 31% of sales by value.

The Chinese government first allowed foreign breweries to enter the country in 1994. Within the first few years, more than 50 breweries entered the market. Currently, 60 foreign-owned breweries operate in China although only one is believed to be profitable. Most foreign-owned breweries have been trying to sell their products at a

higher price than domestic beers while it is estimated that only 10% of consumers are willing to pay a premium price for beer.

In January 1997, new Chinese laws governing brewery production ruled that Sino-foreign joint ventures would be restricted to 30 percent of China's total beer production and foreign beer brands would be limited to a 10 percent market share in China. This way local and state owned breweries will be protected from foreign competition, and maintain a majority share in China's beer market.

In 1999, China imported $93.7 million worth of beer. The Netherlands was the dominant exporter accounting for 75.5% of total beer imports. Mexico (11.5%), Singapore (6.5%), and the U.S. (3.6%) were the only other countries which held a share of the market greater than one percent. Canada was the twelfth largest supplier with beer exports totalling roughly $117,000. Opportunities for small- and medium-sized Canadian exporters are limited.

Wine

The Chinese wine market is still underdeveloped as wine consumption is a relatively new trend. Wine accounts for less than 10% of alcohol consumption by volume in China. The vast majority of wine sales are through restaurants, bars, and hotels as wine consumption is commonly associated with social gatherings. Consumption within the home is increasing but still accounts for only a small share of total consumption.

Nearly all domestic wine is produced by blending cheap imported bulk wines with domestically grown grapes. This is expected to continue for a number of years until China develops vineyards which can produce a steady supply of good quality grapes. Although the quality of Chinese wines has improved over the past few years, this type of production still results in relatively low-quality, low-priced wine. In addition, many first-time consumers developed a negative impression of wine as a beverage after sampling poor quality products. However, domestic wines are favoured by the vast majority of the Chinese population as imported products are currently too expensive for all but the wealthiest consumers.

Non-grape wines (primarily rice wines) account for nearly 80% of wine sales. Rice wines, or yellow wines, are traditional Chinese products which originated thousands of years ago. These beverages have a lower alcohol level as well as a much milder taste than most imported wines, which appeals to many consumers. Domestic brands such as Dynasty, Dragon Seal, Great Wall, and Imperial Court dominate sales.

Red wine has experienced the strongest growth in consumption. Between 1994 and 1999, red wine sales increased by 250%, although it started from a very low level of consumption. Recent reports outlining the health benefits of moderate red wine

consumption were primarily responsible for increased sales. In addition, the colour red is traditionally a lucky colour and sign of happiness in China.

Although red wine sales have increased substantially in recent years, many consumers do not particularly enjoy the taste of imported wines. Generally, they find these beverages too dry but continue to drink these wines as sign of social status. It is also popular for consumers to mix red wines with lemon-lime flavoured soft drinks such as *Sprite*, which neutralizes the strength of taste. It will take an extended period of time for Chinese consumers to develop a taste for imported wines, however, wine producers can help speed this process through education.

Wine imports have remained relatively stagnant since 1997 when imports totalled $49.2 million. In 1999, wine imports totalled $51.1 million. With exports totalling $26.6 million, Spain was the largest exporter of wines to China. Other top suppliers, and their respective market shares, were France (19.9%), Italy (14.7%), the U.S. (5.1%), Australia (3.1%) and Chile (2.5%). Canada was the twelfth largest exporter to China with sales of $61,000 (0.1%).

With China's accession to the WTO, tariffs on wine imports will decline to 20% by 2004, down from 65% presently.

Health Foods and Nutraceuticals[3]

Although China has a long history of using traditional medicines to cure or improve health, the market for western-style products has emerged within the last 10-15 years.

Through 1999, China's Ministry of Health (MOH) had approved nearly 2,000 domestic health food products and over 100 imported foods. Although there is some debate as to the exact size of the market, annual sales were estimated to be between $4 and $5 billion in 1999. Beijing, Guangdong, Shanghai, Shandong, Jiangsu, and Tianjin account for more than half of the total Chinese health food sales.

As the standard of living has improved, the demand for health food products has also increased. Although Chinese consumers have shown a willingness to purchase health foods, high prices continue to hamper the growth of this market. In addition, the quality of products can vary significantly from one brand to another which has also created a certain amount of skepticism among consumers.

Domestic small and medium-sized companies account for more than 50% of health food sales while foreign firms hold a 10% market share. Analysts expect foreign

[3] A list of documentation and information, required by the Ministry of Health to approve health foods for sale in China, can be found in the "Import Regulations" section of this report.

companies to steadily increase their market share as many consumers believe that foreign products are superior in quality. An increasing number of foreign companies are entering the Chinese health food market through joint ventures. These agreements enable foreign products to be sold under a domestic brand name or vice versa.

The most popular health foods and nutraceuticals are those which target weight loss and fatigue or improve immunities and nutrition. However, as consumption of these products increases, consumer demands are anticipated to become more diverse.

Exporters of health food products may be required to decrease the recommended dosages of their products. Many Chinese products suggest dosages which are only a fraction of the level recommended in Canada.

In contrast to the North American market, most nutraceuticals or supplements are sold in the form of tonics and powders. Capsules or tablets are far less common although these product forms are becoming more widely accepted due to their convenience. However, many consumers have found imported tablets or capsules too large and therefore difficult to swallow.

Organic Foods

While the world market for organic food (also called green food) is growing by 20% annually, the demand for organic foods and beverages in China is estimated to be increasing at twice that rate. Although China has only shown a strong interest in organic foods in recent years, and is therefore starting from a much lower production/consumption level than many countries, this market will present good opportunities for foreign exporters in the future. Currently, foreign organic foods are priced prohibitively high.

In 1998, China's output of organic products totalled 8.4 million tonnes, worth roughly $5.1 billion annually. The Chinese government is actively encouraging the development of organic farming, which can be especially profitable for farmers due to the high prices associated with these products. In addition, production of organic foods is labour intensive which suits China's large farming population better than many developed countries.

Industry experts predict that organic food consumption will account for 1% of total food consumption within 5-10 years.

Canned Food

In 1999, Chinese consumption of canned food totalled over $4.8 billion. Although canned food consumption increased by more than 100% between 1994 and 1999, annual per capita consumption was estimated at merely 18 cans. This represents only

5% of the consumption level in the U.S. However, canned food consumption is significantly higher in China's major cities where consumers generally have higher disposable incomes.

The increased popularity of canned foods can be primarily attributed to the rapid growth of supermarkets, which are the main retail outlets for canned food sales, and busier consumer schedules, which has left less time for meal preparation. Although canned food accounts for less than 2% of total food sales, the steady growth of this sector will provide numerous opportunities for exporters. Staple products such as meats, fruits and vegetables will continue to dominate canned food sales, however, Chinese consumers have also demonstrated a growing interested in canned sauces and other canned food.

As Table 2 shows, between 1994 and 1999, canned seafood experienced the strongest growth of any product sector. Supplies of fresh and frozen seafood have been limited by distribution problems and a lack of refrigeration units. Not surprisingly, canned seafood is popular among many Chinese consumers as it does not require refrigeration or freezing.

Table 2. Chinese Market for Canned Food by Sector, 1994-1999. (In C$ millions)

Sector	1994	1995	1996	1997	1998	1999
Fruit	822	928.9	1092.2	1226.8	1496.4	1663.5
Meat	877.5	953.7	1014	1105.6	1278	1408.9
Vegetables	469.6	555.2	670.1	819.3	1043.5	1134.5
Ready Meals	170.4	191.9	223.4	254.7	318.3	349.4
Seafood	74.7	101.2	132.9	162.5	212.7	243.4
Soup	16.8	14.8	23	26.8	33.6	37
Total	**2431**	**2745.7**	**3155.6**	**3595.7**	**4382.5**	**4836.7**

Access Asia. *Canned Foods in China*, April 2000.

Like many sectors within the Chinese food industry, the production of canned foods is fragmented between numerous suppliers. The three largest suppliers are Guangdong Jinman Group, Maling Food Company, and Zhoushan Aquatic Products. While each of these producers accounts for between 4-6% of the total market, the top ten producers account for only 30% of total sales. With a 2.5% market share, Diageo is the leading foreign supplier of canned food due in large part to the popularity of *Green Giant* brand vegetables.

The canned food market is forecast to experience growth of between 6% to 10% annually through 2005. Canned seafood, fruits, and vegetables are anticipated to experience the strongest growth during this period.

Confectionery

In 1999, Chinese confectionery sales were estimated at more than $1.1 billion. The confectionery market has experienced strong growth in recent years with current sales at more than three times the 1994 level. As is the case with most processed foods, sales in urban centres such as Shanghai, Beijing, and Guangzhou are significantly higher than elsewhere in China. However, confectionery consumption has also increased in rural areas due, in large part, to the fact that most confectionery products do not require special storage conditions.

Traditionally, domestic manufacturers largely produced lower-value bulk confectionery products, often sold without any type of packaging. These products, which had only marginal mark-ups by retailers, depended on large volumes of sales to obtain profitability. However, in recent years, with increased competition from foreign manufacturers, the domestic industry has increased production of higher-quality, higher-priced items.

Industry experts estimate that over 80% of confectionery is consumed by women and children. Not surprisingly, both domestic and foreign producers tend to focus their marketing efforts towards these consumers.

Sugar confectionery continues to be one of the most common gifts for holidays and other celebrations. In particular, it is standard practice to give out wedding candy, or xi tang, to wedding guests. The candy is typically found in a small, red package with the Chinese character for "double happiness" prominently displayed on the packaging. Although domestic brands still account for the majority of these sales, some foreign or joint venture products have gained a small share of the market in recent years. May and September are the most popular months for weddings.

Although exporters may initially offer a limited number of products and flavours, the demand for new or innovative products is particularly strong in the confectionery industry. Retailers and distributors strongly encourage manufacturers to offer a wider selection of products. However, exporters should thoroughly analyse the costs versus the benefits of such an introduction.

Increased health consciousness has also had an impact on the confectionery industry. Products such as sugar-free candies or those with added vitamins have experienced increased sales as parents have become increasingly aware of their children's sugar intake. This may represent a good opportunity for Canadian exporters as consumers have shown a willingness to pay slightly higher prices for confectionery products which have nutritional benefits.

The chocolate and chewing gum sectors offer the most promising opportunities for Canadian exporters. The market for sugar confectionery products is dominated by a

large number of domestic producers who can provide consumers with far less expensive products than foreign manufacturers. However, the quality of chocolate and chewing gum products can vary significantly which has enabled foreign manufacturers to enter the market with a relatively high degree of success. Consumers have also displayed a willingness to purchase brand-name, imported chocolate and chewing gum.

Dominant suppliers to the Chinese market include Nestlé SA, Mars, Cadbury Schweppes Plc, and William Wrigley's Jr. Co. These companies account for roughly one-quarter of total confectionery sales. Other major producers include the Sheng Zheng Le Conte Food Stuffs Company, the Shanghai Guanshengyuan Factory and the Shanghai Shengfeng Food Company. Small, local producers still account for over half of total sales, however, these companies, which tend to be poorly managed, are quickly losing market share to large producers.

In 1999, China imported $39.1 million worth of confectionery products. Canada held a 4.3% share of imports and was the ninth largest exporter of these products to China. South Korea was the largest exporter to China with a 16.9% market share. Other top exporters included the U.S. (9.7%), Hong Kong (9.4%), Malaysia (6.4%), and Indonesia (6.2%).

Although confectionery sales are expected to slow down between 2000 and 2004, annual growth of between 9-16% will offer Canadian exporters good opportunities to enter or expand their sales within the Chinese market. Sales of confectionery products are forecast to reach $2 billion by 2004.

Snack Food

With steadily rising disposable incomes, many consumers have increased their spending on luxury food items such as snack foods. Advertising for snack foods is primarily directed towards children and young adults who are the largest consumers of these products. However, snack food purchases are becoming more common among all age groups.

Major cities offer consumers a wide variety of snack foods including chips, crackers, cookies, dried fruit, dried cuttlefish, and a broad range of seeds and nuts. However, there is a distinct difference between products which are consumed by adults, which tend to be saltier, and sweeter products which have a greater appeal among children. Canadian exporters should note that taste preferences can differ significantly from one region to another and therefore it is recommended that they research a region or city to discover consumer preferences before entering the market.

With a market share of nearly 20%, PepsiCo is the dominant producer within the highly-fragmented snack food market. PepsiCo has achieved its position within the market through the popularity of its *Lays*, *Doritos*, and *Cheetos* brands. However, its alliance

with Want Want, the leading producer of rice crackers, and its purchase of several smaller producers has also made a significant contribution to the Company's position. Besides PepsiCo, there is no one producer which holds a sizeable share of the market.

Many regions have local producers which sell small amounts of flavoured seeds or nuts either along roadsides, in local markets, or to small retail outlets. These products tend to be sold in bulk at low prices. Larger retailers usually carry a wide variety of seeds and nuts in bulk, which are sold by weight.

Generally, imported snack foods are considerably more expensive than domestically produced snacks. However, many consumers have shown a willingness to purchase imported snack foods which they perceive to be of higher quality than some Chinese products. With the continued growth of this market, and the increased willingness of consumers to try new products, there should be good opportunities for snack food producers to enter the Chinese market in the coming years.

Processing and Packaging Equipment/Technologies

One of the greatest obstacles facing the domestic processed food and beverage industry is a lack of efficient and aseptic processing and packaging equipment. Although many of the industry's leading companies have imported equipment and technology from outside China, the majority of food and beverage processors continue to use outdated, inefficient and, occasionally, unsterile equipment for processing and packaging foods.

The demand for processed foods has experienced significant growth in recent years and with increased competition from foreign producers, Chinese processors will be forced to improve their equipment and technology in order to remain competitive. Products for which there is a strong demand for new technology and equipment include, but are not limited to: beer and beverages (particularly for small producers), meats, grains and oils, and fruits and vegetables. The growth in popularity of frozen and chilled foods has also led to a strong demand for storage and transportation equipment which can handle these products.

The domestic fast-food industry is another area in need of equipment and technology. American chains such as Pizza Hut, McDonald's and Kentucky Fried Chicken are the dominant players in the Chinese fast-food market. Although the industry has grown by 20% annually for the last five years, the domestic industry continues to suffer from a severe shortage of competitive equipment and technology. The strongest demand is for equipment and packaging technologies for instant noodles, rice, dried noodles, instant gruel, steamed buns and dumplings.

The success of domestic producers has been significantly hindered by a lack of advanced processing and packaging equipment. For example, it is estimated that of the

products due to be processed, 10% of grains, 25% of fruits, and 30% of vegetables rot before they are packaged. This loss is a direct result of inadequate storage and processing facilities and also represents a substantial loss of income for Chinese producers.

Recent Developments, Actual and Planned Projects

In 1999, PepsiCo Inc. launched the PepsiCo Foodstuff (China) Company Ltd., in Shanghai. PepsiCo invested nearly $45 million in the first phase of development. The new company will focus on supplying China's growing snack food market.

In March 2000, Danone acquired Robust, one of China's leading producers of bottled water and dairy beverages. Robust has six production plants, 28 sales offices, and an established national distribution network which will enable Danone to distribute its products to a larger portion of the country.

In April 2000, the State Development Planning Commission announced that China will make a number of changes to encourage foreign investment in the agricultural sector. These changes in policy include reducing import taxes, income taxes and various other fees. Foreign investment will also be able to enter the agricultural sector through various channels such as joint ventures, wholly-owned foreign enterprises, or through owning stock shares.

In May 2000, the State Administration for Entry-Exit Inspection and Quarantine approved the investment of US$30 million to computerize quarantine systems and border inspection. In addition, this system will link all border entry points into one system.

In July 2000, the Ministry of Health (MOH) announced that it has prohibited the production of 80 health food brands. The MOH found that these products exaggerated their curative effects, thereby intentionally misleading consumers.

In August 2000, Tsingtao Brewery Co., China's largest brewer, purchased a 75% share of Carlsburg's production plant in Shanghai for approximately $27 million. Tsingtao also purchased Asia Shuang He Sheng Five Star Beer Co. Ltd. and Three Ring Asia Pacific Beer Co. Ltd. from Asimco, a U.S. investment group whose beer ventures have been backed by Miller Brewing Co. These acquisitions are expected to add 400 000 tonnes of production capacity to Tsingtao's previous annual capacity of 1.1 million tonnes.

In August 2000, Asahi Breweries Ltd. (Japan) agreed to form a joint venture with Tsingtao Brewery Co. to produce soft drinks in China. The new venture, Qingdao Tsingtao Beer Asahi Breweries Co., will be based in Qingdao, and will be capable of producing 50 000 tonnes of beverages annually. The new facility will initially produce oolong tea, with sales expected to commence in June 2001.

Alta Natural Herbs & Supplements (Canada) has signed a memorandum of agreement with Qingdao Haier Pharmaceutical Co. Ltd. to distribute Alta's nutraceutical products throughout China. With over 3,000 distribution outlets and sales of more than $4.8 billion in 1999, Haier is one of the largest corporations in China. Alta will also act as Haier's agent in the North American markets.

PepsiCo will begin operation of a new division, in Tianjin, in mid-2001. PepsiCo Investment Ltd. and the Tianjin Development Holding Co. Ltd. will each hold a 44% share of the new facility, while the Tianjin Economic and Technological and Development Company will control the remaining share. The joint venture, worth nearly $27 million, will produce both Pepsi brand and other Chinese brand carbonated beverages.

Over the next 3-5 years, the Guangzhou municipal government is looking to set up a 180-square-kilometre farm which will focus on environmentally-friendly forms of farming. The Project (the Guangzhou Zhujiang Organic Food Production Base), which will be partially funded through foreign investment, will concentrate on the production of organic fruits, vegetables, flowers, and seafood farming techniques. The municipal government hopes to make this project one of the largest sources of organic food production in China.

COMPETITIVE ENVIRONMENT

Local Capabilities

Most segments within the processed food industry are highly fragmented with a large number of small producers, supplying individual cities or regions account for more than half of the industry's sales. Typically, a handful of domestic manufacturers account for 20-40% of industry sales with no one producer accounting for more than 10-15% of the total market.

Factors such as a poor distribution system and a lack of efficient technology and equipment continue to plague the processed food industry. Thus far, many Chinese producers have been protected from international competition through a series of tariff and non-tariff trade barriers. As a result, many processed foods and beverages have been of low quality. However, with China's accession to the WTO, foreign manufacturers of processed foods will have greater access to the Chinese market. This will force domestic producers to improve all aspects of their business (distribution, packaging, quality, etc.) or risk losing market share. Also, this should consolidate many industries as smaller, inefficient operations are either forced to close or are acquired by larger competitors.

Domestic producers will continue to benefit from the fact that many consumers prefer to purchase foods and beverages made in China. Furthermore a large portion of the population cannot afford imported foods even though they may feel that those products are of superior quality. As a result, they will continue to purchase domestically produced items. However, as disposable incomes continue to rise, a growing number of consumers will be able to afford imported foods and beverages and these consumers have already shown a willingness to pay higher prices, for higher quality items.

Experience in navigating complex distribution systems also gives domestic manufacturers an advantage over foreign suppliers.

International Competition

Competition for Canadian exporters varies significantly depending on the product.[4] The United States is the largest exporter of processed foods and beverages to China and, therefore, provides the greatest competition for Canadian exporters. Although the United States has a significantly larger market share than Canada, exporters tend to analyse access issues (tariffs, quotas, distribution costs, etc.) facing U.S. products, as Canadian companies face similar challenges in entering the Chinese market. Other competitors in the processed food market include Australia, Japan, South Korea, and a number of countries from the EU.

Canadian Position

According to the *World Trade Atlas*, in 1999, total Canadian exports to China were valued at approximately $2.7 billion, or 1.4% of China's total imports. Canada was the seventeenth largest exporter to China. Although food exports account for a significant share of total exports, Canada's share of Chinese processed foods imports is minimal. However, the combination of China's accession to the WTO, and growing consumer interest in imported foods should provide good opportunities for Canadian exporters.

Processed foods will also benefit from Chinese consumers' impression of Canada as a clean, natural and environmentally friendly country. With strong growth projections for China's middle class, there will be increased opportunities for imported foods as disposable incomes rise. However, Canadian exporters will face stiff competition from foreign suppliers, and will likely need to invest time and money educating Chinese consumers about the benefits of Canadian goods.

[4] Please consult the *Opportunities* section of this report for more detailed information on foreign competition within specific product categories.

Competitive Advantage Through Canadian Government Policies and Initiatives

Agri-Food Trade Program

The Agri-Food Trade Program (AFTP) is a cost-shared contribution program designed to support Canadian agri-food industry activities in areas of market readiness, market access and market development. The objective of the AFTP, which combines the Agri-Food Industry Market Strategies (AIMS) and Agri-Food Trade 2000 (AFT2000) programs, is to increase sales of agriculture, food and beverage products in domestic and foreign markets.

A priority of the AFTP is to encourage Canadian agri-food associations and alliances to develop and implement sectoral export market development strategies to improve their global competitiveness.

Canadian Commercial Corporation

The Canadian Commercial Corporation (CCC) gives Canadian companies access to financing and better payment terms under the Progress Payment Program (PPP). The PPP concept was developed as a partnership between major Canadian financial institutions and the CCC. It enables the exporter's bank to open a project line of credit for the exporter's benefit, based on CCC approval of the project and the exporter's ability to perform. The CCC will also act as a prime contractor on behalf of Canadian small and medium-sized enterprises, giving those businesses increased credibility and competitive advantage.

Export Development Corporation

Export Development Corporation (EDC) is Canada's official export credit agency, facilitating Canadian trade with over 200 world markets. EDC's first transaction with China took place in 1980 and since this time EDC customers -- Canadian companies of all sizes -- have concluded over $5 billion of business in China. A variety of EDC trade finance services have been employed in the China market. Financing is traditionally offered on a case-by-case through lines of credit established with select Chinese banks. Export financing may also be considered via direct buyer loans to creditworthy companies which have Chinese government authority to borrow funds abroad. In addition, EDC export and investment insurance programs provide exporters with protection against a variety of risk, both commercial and political. Performance security and contract bonding programs also help exporters by providing exporters with the ability to free up working capital while meeting bonding requirements during the execution of commercial contracts.

Program for Export Market Development

The Program for Export Market Development (PEMD) helps Canadian companies enter new markets by sharing the costs of activities that companies normally could not or would not undertake alone, thereby reducing risks involved in entering a foreign market. Eligible costs and activities include market visits, trade fairs, incoming buyers, product testing for market certification, legal fees for international marketing agreements, transportation costs of offshore company trainees, product demonstration costs, promotional materials, and other costs necessary to execute a market development plan. Activity costs are shared on a pre-approved, 50/50 basis.

The PEMD refundable contribution ranges from $5,000 to a maximum of $50,000. Preference is given to companies with fewer than 100 employees for a firm in the manufacturing sector and 50 in the service industry, or with annual sales between $250,000 and $10 million. Other components of the program include international bid preparation (Capital Project Bidding) and, for trade associations, developing international marketing activities for their membership. For additional information, visit http://www.infoexport.gc.ca/pemd-e.asp or call 1-888-811-1119.

WIN Exports

WIN Exports, a database of Canadian exporters and their capabilities, is used by trade commissioners around the world and by Team Canada Inc partners in Canada to match Canadian suppliers with foreign business leads, and to share information on trade events. To register your company in WIN Exports or for more information, visit http://www.infoexport.gc.ca/winexports/menu-e.asp or call 1-888-811-1119.

CONSUMERS

Food expenditures continue to account for the largest share of consumer spending. Although the vast majority of food purchases are made by women, as more women join the work force, an increasing number of men have started shopping for food on a regular basis.

Younger and higher-income families are the primary consumers of imported foods. These consumers have both the means and a greater interest in new or unique imported foods. However, a lack of knowledge about preparation techniques or even about the products themselves has hindered sales of many imported foods. Increased marketing and promotion will be necessary for imported foods to make a significant impact on this market. Consumers have shown a willingness to buy recognizable brand name foods as these are perceived as being of high quality.

Price continues to be the greatest obstacle for imported food sales. However, as levels of disposable income have increased, convenience and appearance have become important factors influencing food purchases. Older consumers, many of whom make purchase decisions based solely on price, have proved to be the most resistant to imported foods.

Although Western-style dining continues to account for only a small portion of money spent on eating out, they are excellent venues for introducing new products since they cater to upper-middle-class Chinese consumers. Local restaurants and foods control the largest share of the market, with seafood delicacies such as lobster, oysters, shrimp and crab accounting for a significant share of sales. Chinese consumers have shown a willingness to pay relatively high prices for food — especially seafood — that is prepared in restaurants.

PUBLIC-SECTOR CUSTOMERS

Despite increased liberalization, the Chinese government is still heavily involved in the retail sector. Typically, the government is involved in state-run shops, in which products are stocked behind counters and handed to customers by the staff. State-owned stores have begun to lose business with the opening of supermarkets, which offer a wider selection of products at competitive prices. In addition, depending on the product sector, many of the large producers/importers are either partially owned or fully owned state enterprises.

MARKET LOGISTICS

Due to the fact that each region within China oversees its own food and beverage distribution system, inter-regional trade has traditionally been weak. As a direct result, local officials often regard regional economies as proprietary, frequently creating barriers for products from other regions or countries. Analysts predict that this trend will become less prevalent due to factors such as the development of national retail chains. Companies exporting to China may wish to invest in their own distribution infrastructure, or form distribution agreements with other western companies, to avoid any logistical problems or delays.

Given China's internal transportation difficulties and developmental disparities across regions, distribution systems vary significantly by region and market. Exporters are, therefore, encouraged to explore regional or metropolitan markets rather than attempting national distribution. The eastern coastal regions of China, which include the states of Shanghai and Beijing, represent the strongest consumer markets for imported goods.

In contrast to the situation in China is Hong Kong's widespread and efficient distribution infrastructure of roadways, railways and shipping companies. Hong Kong's role as a major entrepot to China will likely continue for years to come, although market logistics in China will become increasingly sophisticated.

Channels of Distribution

In general, most food products are still shipped through Hong Kong. Some of the large, experienced exporters have begun dealing directly with Chinese freight forwarders, carriers and retailers while smaller exporters tend to prefer to reduce their risks by shipping through Hong Kong. The speed with which more products are shipped directly to China will be based on whether or not exporters have positive or negative experiences in the next few years. However, no matter what the outcome, the general consensus appears to be that this will be a slow, drawn-out process that may take decades to fully complete.

Transportation and Storage

Even though Canadian exporters will have increased access to the Chinese market through bilateral and multilateral agreements, one of the greatest obstacles for potential exporters involves China's transportation system and storage facilities. Although China has already begun investing in infrastructure improvements, the transportation system is underdeveloped and sometimes difficult to negotiate. Widespread progress in this area will take years to accomplish. In the meantime, exporters will have to negotiate the existing system as best they can.

When using the Chinese distribution system, exporters should also account for lost or stolen items, and unexpected fees at points of entry. Loss of product(s), especially perishables, is considered part of doing business in the Chinese market and many agents include a sizeable charge, in addition to their regular fees, to cover "unexpected miscellaneous costs."

Shipping by sea is the easiest and least-expensive mode of transport. Many manufacturing plants are located, or are planned to be built, on the coast or along rivers, in order to take advantage of these natural transportation routes. The special economic zones of Xiamen, Shantou, Shenzhen, Zhuhai and Hainan are all situated along the southeastern coast of China and have full shipping access. Economic and technical development zone ports, with different regulations and economic benefits, are located along the full extent of the eastern seaboard.

There are currently 235 ports in China according to the State Port Administration Office. Although many ports have been built in the last 20 years, most of them are relatively small, with only 30 ports handling 80% of total Chinese shipping.

Between January and April 2000, the handling capacity of China's main ports increased by 26% over the same period in the previous year. With the continued inevitable growth in container movement, the Chinese government has identified the need to improve existing ports and build new facilities to accommodate newer, larger container ships. The 10th Five Year Plan should be available in early 2001, and may identify ports that will receive development support.

As Table 3 shows, Shanghai is China's largest port. Annually, Shanghai handles roughly 25% of the country's total port cargo. Although the amount of cargo passing through this port is forecast to triple by 2010, Shanghai, like many of China's ports, faces two geographical problems. First, the depth of its harbour is only 7 metres, which is too shallow for many of the world's largest ships. Second, it has significant silt build up, which requires constant dredging. In order to facilitate the increased flow of goods, the Chinese government is considering linking Shanghai to Ningbo, the country's deepest port, which is located to the south.

Table 3. China's Largest Ports (by total cargo handled), 1999

1. Shanghai	6. Qingdao	11. Xiamen
2. Qinghuangdao	7. Shenzhen	12. Yingkou
3. Ningbo	8. Zhanjiang	13. Yantai
4. Dalian	9. Lian	14. Fuzhou
5. Tianjin	10. Rizhao	15. Yantian

Source: Agriculture and Agri-Food Canada. *China Agri-Food Prospectus*, April 2000.

Although most ports have enough storage facilities, they are of poor quality. Most are adequate for general cargo, but companies importing frozen or fresh products should note that cold storage remains a significant problem. Poor storage, or a lack of storage facilities often results in fresh or frozen products being left out for hours before being properly stored again. This can lead to a massive loss of goods.

In many cases, exporters of chilled or frozen products are limited to supplying coastal cities due to a lack of infrastructure, national refrigeration systems and effective distribution network outside of the main coastal cities and ports. Local government regulations forbid entry of distribution companies to service retailers. As a result, there are no third-party cold storage and distribution service companies with the expertise, experience, storage equipment or technology to alleviate the severe distribution problems and inefficiencies.

Once shipments reach China, rail is the cheapest form of transportation for locally manufactured goods and offers greater access to inland cities than any other mode of transportation. However, 10% to 12% of all freight is damaged due to mishandling. While domestic goods have priority, the addition of trains at fixed times and fixed prices

between Beijing, Shanghai and Chengdu has improved service. More routes have also been added to run between major urban centres and inland areas.

Trucking, which is the most efficient and cost-effective distribution option, has benefited from the recent construction of new road systems linking major cities to surrounding regions. The central government has also taken action to reduce the number of highway robberies and illegal toll charges enforced by police impersonators.

Retail Outlets

During the 1990s, the Chinese supermarket industry grew exponentially. For example, Shanghai opened its first supermarket in 1991, and today there are more than 1000 in the city. Although some of these outlets were state-owned enterprises, the majority of supermarkets are joint-venture projects. Table 4 shows some of the top supermarket chains in China.

Table 4. China's Top Ten Supermarket Chains, 1998

Chain (Location)	Annual Sales Volume (US$ millions)	Number of Stores
1. Lianhua (Shanghai)	458	359
2. Hualian (Shanghai)	398	360
3. Sanlian (Shandong)	324	71
4. Metro (Shanghai)	244	4*
5. Nonggonshang (Shanghai)	240	94
6. Chaoshifa (Beijing)	152	42
7. Jieqiang (Shanghai)	128	129
8. Suguo (Jiangsu)	118	65
9. China Resources (Shenzhen)	113	155
10. Lotus (Shanghai)	99	3*

Source: Chinese Ministry of Domestic Trade.

Although there are some large supermarkets that are similar to North American stores both in size and structure, most supermarkets are mid-sized stores (700 to 2000 square metres) that carry 2000 - 4000 products.

Within cities such as Shanghai and Beijing, Chinese supermarkets have also been successful at catering to the financial level of most of their customers. The largest number of imported goods is found in supermarkets that are located in areas with above-average income levels or in areas with high numbers of foreign or foreign-educated consumers.

Hypermarkets such as Wal-Mart (U.S.), Carrefour (France), Trust-Mart (Taiwan), and Makro (Holland), have also appeared in major Chinese cities in recent years. The popularity of these stores is based on their wide selection of goods, discount pricing and convenience. The number of hypermarkets in China should steadily grow over the next decade.

There are two different kinds of convenience stores in China. First, there are thousands of small stores, usually located near supermarkets, which are affiliated with the larger supermarkets. Many of these outlets were formerly government-run grain stores that have been converted into small shops that offer domestically produced items at a relatively low cost. The second type, which is relatively new to the Chinese marketplace, closely resembles Canadian convenience stores. These outlets, which typically offer 24-hour service, appeal to more affluent consumers and primarily stock items such as imported candy, snacks, alcohol and cigarettes.

A final form of retail distribution is through wet markets. These locations tend to be found on side streets and alleys, offering products such as fresh fish, meat, vegetables and grains. Although unsanitary, wet markets still appeal to the low-income population and older generations because their prices are very low and products are fresh. For the older generations, wet markets represent a traditional reminder of their own history and that of their country.

When supermarkets emerged in 1991, many wet markets were closed down. This change took place rapidly because of government policies regarding health and sanitary conditions, improved economic conditions and changes in people's consumption habits. Imported foods are rarely, if ever, sold at wet markets.

Importers and Intermediaries

Chinese importers usually prefer to establish direct trade links with foreign suppliers, or to work through an intermediary in Hong Kong. However, with China's accession to the WTO and the opening of Chinese borders to a growing number of products, intermediaries are falling out of favour with most Chinese importers because importing products directly reduces costs for local companies. Canadian companies attempting to enter the Chinese market will find it more cost-effective to approach suitable buyers directly in the local market. If a company is willing to incur the added expense, using an intermediary has the advantage of superior market intelligence and improved communication for customer servicing. Typically, importers will ensure that all Chinese documentation and labelling requirements have been met by the producer.

Direct Sales

Until recently, foreign companies were not permitted to directly engage in trade with China other than through direct marketing of goods that they have manufactured in

China. One of the few exceptions to this rule was for stores that were partially financed by foreign investment. These outlets were able to import products directly. However, the recently signed bilateral trade agreements with other WTO countries will allow the direct importation of certain products. Although companies are able to export directly to China, it is widely believed that many foreign exporters will continue to ship their products through Hong Kong, as local agents have both the experience and the contacts to make the exporting process as smooth as possible.

Distributors and Wholesalers

Many established trading companies and distributors have exclusive agreements with their suppliers, which do not allow the distributor to represent a competitor. However, approaching distributors handling complementary products can lead to distribution contracts that will sell products through many of the same routes. If this kind of arrangement can be established, it could result in good cost and distribution advantages. Forming equity or contractual joint ventures can be advantageous to companies that plan to enter the rapidly developing Chinese food market. This is particularly true for companies whose products are expensive to ship. It is less expensive to distribute through existing networks rather than to establish new networks.

State/private wholesalers handle the majority of distribution in China. They are often the result of decentralization of state companies, becoming regional private-sector companies with good government contacts to facilitate customs clearance and minimize bureaucracy, but limited in geographic area served. Prices are often competitive, with rapidly improving services, however product damage through poor handling can occur.

Foreign wholesalers offer wider national or multi-regional service in China, in addition to a more modern range of distribution services. Distribution networks through foreign wholesalers are often extensive, and the exit cost is lower for the manufacturer if it needs to pull out of the market. However, foreign wholesalers are more expensive than domestic distributors, resulting in higher retail prices for the consumer. Local wholesalers are also generally more knowledgeable about regional markets.

The choice of retailer to which the wholesalers deliver products is vital to the success of the product. Retail outlets in China can be classified into state-owned, collectively owned and privately owned enterprises, including individually owned distribution outlets.

State-owned outlets are responsible for most of China's large department stores and account for about 40% of retail outlets, though they carry few imported products.

Collectively owned enterprises consist primarily of co-operatives in villages and towns, although there are also a number of shops in large cities that operate under this system. This retail distribution accounts for around 25% of the national distribution

system. The Chinese government frequently exercises a large degree of control or supervision over the actions of these co-operatives.

Privately owned enterprises currently account for 20% of Chinese retail outlets, but their market share is predicted to grow at the expense of collectively owned enterprises. This sector includes the developing supermarket and hypermarket industry. Western-style supermarkets are new to China, but are developing rapidly. They carry the highest percentage of imported and Western-style foods, and provide the best entry point for newly imported products since they are geared toward more affluent Chinese consumers.

The China National Cereals, Oils & Foodstuffs Import and Export Corporation (COFCO), is the state monopoly wholesaler and distributor of alcoholic beverages. Unless exporters arrange to ship their products directly to joint ventures or foreign owned hotels/restaurants, most distributors obtain a sub-licence from CEROILS and then handle the distribution and marketing of the product themselves. This gives producers greater control of handling and storage of their product(s).

Agents and Sales Representatives

Exporters are required to use a domestic agent when operating in the Chinese market. In addition to offering exporters a physical presence in the local market, these agents and sales representatives can provide vital links to distributors, wholesalers and retail outlets. In essence, employing a reliable agent often involves taking on a variety of other partners including truckers, customs brokers and other agents. If a company wishes to either establish its own distribution network or use another company's privately operated network, agents can assist in making contacts.

An exporter must weigh a number of factors when selecting an agent, such as which region(s) the agent covers, the individual's reputation, product knowledge, experience in handling the exported product, the commission to be paid, what (if any) after-sales service is provided, and the size and quality of the agent's staff. These attributes can best be assessed during a visit to China, during which time manufacturers should also make sure that responsibilities are clearly defined before entering into a business relationship. As a new exporter becomes more accustomed to the market, and expands its knowledge of the market, less dependence upon the agent will be required.

Market-entry Considerations

Pricing

One of the primary concerns when entering a new market is the pricing strategy. Endeavouring to enter the market by low product pricing may be futile if Chinese retailers mark up the price to boost their profit margins. Most imported, processed foods

are priced significantly higher than domestically produced items, despite producers best efforts to avoid this result. However, as brand recognition is established and the product becomes more successful in the market, a move to produce locally can help to lower manufacturing costs. The combination of lower manufacturing costs and being a local producer will help in reducing prices and increasing profit margins. However, some food exporters have experienced success by focussing specifically on the food-service sector, where prices tend to be significantly higher than through other channels.

Some foreign producers intentionally set a higher price on their products to establish an "expensive and superior image" to local consumers. This may be a risky approach if consumers can purchase similar domestic or foreign products for a significantly cheaper price. However, if a product can become established in the market, the manufacturer can lower the price and thereby generate increased sales.

Suggested Business Practices

Establishing a personal relationship with Chinese business associates is an important step in successfully entering the Chinese market. In many cases, trust between business parties is as significant, if not more important, than contractual agreements. Sharing information on personal interests as well as showing an interest in your business associates can quickly strengthen business ties. Once established, maintaining solid relationships will depend on frequent face-to-face meetings with Chinese counterparts, as well as a long-term commitment to the market.

Making potential business associates feel comfortable will also strengthen business relationships. For example, providing literature and business cards in both Chinese and English, as well as learning a few words of Chinese, is appreciated by Chinese businesses. In addition, the effort of obtaining translations will be interpreted as an indication of your commitment to doing business with the Chinese company.

The use of interpreters is strongly recommended for business meetings. Interpreters allow Chinese business associates — even those who speak English — to feel more relaxed, and perhaps enables the Canadian exporter to provide more details than they could while speaking English. Interpreters should be briefed about both companies involved, specific products, and the objectives of the meeting. Following the meeting, interpreters should provide a debriefing about the tone and any private verbal and/or non-verbal exchanges that may have taken place among the Chinese business associates.

Like many Asian countries, the hierarchical structure of Chinese companies differs from those of North American companies. Many business initiatives start at the bottom of a company and "work their way up". Foreign companies often bypass lower levels of administration in an attempt to appeal to senior personnel. More often than not, this type of approach results in the alienation of key decision makers.

Participation in some of China's many specialized trade shows and exhibitions is an excellent method for potential exporters to both assess the market and make contacts.[5] Due to the extensive preparatory requirements of these events, combined with the need to communicate in Chinese, it is recommended that Canadian exporters select an agent or distributor before attending the show. This is usually a prerequisite to effective participation and provides support to the agent's or distributor's work in effectively representing and profiling the exporter's product. However, with or without an agent or distributor, participation may enable exporters to benefit from the following:

- local pricing information;
- information about competing products;
- a chance to measure consumer acceptance of a product;
- product exposure in the Chinese market; and
- an opportunity to find an importer or distributor.

Import Regulations

Traditionally, the Chinese government protected many areas of the domestic agriculture sector by imposing high tariffs on imported goods. However, China has lowered tariffs on many products, and the average duty for imported agricultural products currently stands at 22%. After China officially joins the WTO, this rate will decrease to approximately 17.5% and will continue to decrease marginally through 2004. All agricultural products are still subject to the value-added tax (VAT), which ranges from 13% for fresh or unprocessed goods, to 17% for frozen and processed foods.

In addition to tariffs and the VAT, imported foods may also be subject to other taxes. Businesses selling goods into China often complain about China's customs valuation practices, as different ports of entry may charge different duty rates on the same products. Because there is flexibility at the local level in deciding whether to charge the official rate, actual customs duties are often the result of negotiations between business people and Chinese customs officers.

Non-tariff barriers are administered at national and sub-national levels by the State Economic and Trade Commission (SETC), the State Development Planning Commission (SDPC), and the Ministry of Foreign Trade and Economic Co-operation (MOFTEC). These non-tariff barriers include licences, quotas and other import controls. The level of imports permitted under these measures was determined through complex negotiations between the central government, the provinces and Chinese ministries.

[5] A list of agricultural trade shows appears at the end of this report. Exporters should contact the Canadian missions in China about additional trade shows that may be relevant to a specific product.

MOFTEC uses import licences to exercise an additional nationwide system of control over some imports. Many products are subject to both quotas and restrictions on top of import-licensing requirements. For these products, MOFTEC must decide whether to issue a licence after permission has been granted by other designated agencies for importation. MOFTEC officials claim that import licences are issued automatically once other agencies have approved an import.

In an attempt to speed up customs clearance procedures, the Chinese government recently merged a number of its inspection agencies into one bureau. The China Animal and Plant Quarantine Bureau, the State Administration for Commodity Inspection (SACI) and the Health Inspection Bureau were all merged in the new State Administration for Entry and Exit Inspection and Quarantine (CIQ-SA). The CIQ-SA is responsible for inspecting all imported foods and beverages for the following:

- sanitation and health;
- quality;
- quantity;
- weight; and
- labelling.

Importers or distributors should apply to the CIQ-SA to get labelling approved before shipments arrive in China. This will help to keep border delays to a minimum.

In 1998, the Chinese government began cracking down on the smuggling of products into China. Customs officials now thoroughly check imported goods for all correct documentation to ensure that all products are being claimed and that products are not entering at an undervalued rate. Although this has not put an end to imports through illegal channels, the number of products entering by these means has been significantly reduced and will continue to decline in the future. Both government officials and industry analysts hope that this will lead to a reasonably transparent system in the not too distant future.

Since 1988, China has established a number of duty-free import/export zones and five special economic zones: Shenzhen, Shantou and Zhuhai in southern Guangdong Province, Xiamen in southern Fujian and one on the island of Hainan. These zones facilitate foreign investment and trade by offering lower business tax rates and operating costs, a better investment climate, a more developed infrastructure, and lower local taxes and rent. In deciding where to locate, some foreign firms have found that the willingness of authorities to cater to the specific needs of the investor is more important than the official incentives mentioned above. Attracting business to their region results in benefits for companies — such as jobs and economic spin-offs — in addition to those provided by the special economic zones. Inexpensive labour, additional tax breaks, easing of construction restrictions, and low property and construction costs attract the business, while extra perks are developed for ownership and management. Though the

special zones provide incentives, investors should bear in mind the distance to the target market, as well as the availability of supplies and labour.

Health Foods

Before sale, all health foods must be examined and approved by the MOH, which requires the following information and documentation:

- name of the product;
- application form;
- formula;
- manufacturing process;
- quality standards;
- a safety and toxicology evaluation report;
- function evaluation report;
- function component document;
- product stability document;
- product hygiene inspection report;
- label and description; and
- domestic and international documentation.

Upon receipt of a Health Food Approval Certificate, exporters may be able to transfer the technology or manufacturing capabilities to other companies. However, it is recommended that Canadian companies closely examine Chinese regulations regarding the transfer of technology or manufacturing rights before applying for a Health Food Approval Certificate.

Local Standards, Certificates or Registrations

The Food Hygiene Law regulates all domestic and imported food production and operation within China. The Law also governs areas such as additives, containers, packing materials, instruments, equipment, places of production, and detergents and disinfectants used in association with food products. Canadian exporters should review this law, prior to shipping, with their Chinese agent(s) to ensure that imported goods conform to all regulations. Goods must be inspected at entry ports prior to customs clearance.

All products exported to China must be accompanied by a set of shipping documents. All essential documentation should be thoroughly checked to ensure that it is correctly prepared and arrives with the shipment. All documents should be completed in both English and Chinese in order to avoid any unnecessary delays.

Packaging and Labelling

Chinese product packaging requirements are different from those established for similar products found in North America. Wholesale or bulk packaging is rarely found in China (in fact, smaller sizes than those found in Canada are more common) as warehouse space, retail shelf space and consumer storage space are limited. One or more foreign languages may appear on labels, but all packaged retail food must have the following information clearly printed, in Chinese:

- type of food;
- brand name;
- ingredient list;
- name and address of manufacturer or distributor;
- net contents;
- alcohol content (where applicable);
- content of must - % (where applicable);
- sugar content (wine);
- country of origin;
- date of production;
- method of storage; and
- best before date/storage period.

Trademarks and nutritional content may also be listed on food and beverage labels.

Health foods and nutraceuticals also require the dosage, means of administration, functions, applicable end-users, and any warnings to be listed on labels.

Chinese consumers have shown a preference for foods with both Chinese and a foreign language on the label. The Chinese characters enable consumers to understand the contents of the package while the appearance of a foreign language is often perceived as a symbol of high quality.

Canadian packaging technology is generally of a higher quality than domestically produced items. However, joint ventures, an increase in imported goods, and improved domestic technology have slowly decreased the advantage that imported goods once held. Depending on the product, transparent packaging is popular among Chinese consumers as this allows them to assess the appearance and quality of the product.

Also, many consumers believe that there is a relation between the quality of a product's packaging, and the quality of the product itself. Therefore, attractive packaging can have a significant impact on the the volume of sales.

The Measures for the Administration of the labelling of Imported and Exported Foodstuffs were issued by the CIQ-SA and entered into effect on April 1, 2000.

Business operators of import/export companies or their agents must submit a food label examination and verification application to the CIQ-SA before import or export. The following materials must be submitted with each application:

- an application form;
- an explanation of the design of the food label and supporting materials regarding its fitness for use;
- explanatory materials for the written text on the food label;
- six example sets of the food labels or, if it is difficult to provide these, valid photos; and
- any other materials required.

The CIQ-SA will mark all imported foods, such as wine, non-alcoholic beverages, dairy products, confectionery, and canned food, with a round silver mark verifying that they have been approved for import.

Invoices and Shipping Documents

Commercial Invoice

The commercial invoice serves as a bill to the buyer from the exporter and must accompany every shipment to China. Invoices must be signed by the exporter. The invoice should be thoroughly checked, since any errors or omissions can result in delays, fines or even confiscation of the goods. Although there is no specific format for this documentation, the invoice must include the following information:

- place and date of issue;
- names and addresses of importer and exporter;
- detailed description of the merchandise, including identifying marks, quantities (in units customary to international trade), numbers and varieties;
- method of shipment;
- signature of responsible officer, along with name and title;
- all insurance and freight charges; and
- shipper's invoice number and customer's order number.

Exporters should consult with their importer/customer to determine how many copies of the commercial invoice should be sent with each shipment, since the number of copies required depends on the product being shipped. Any promotional information should also be included with the commercial invoice.

Pro-Forma Invoice

Pro-forma invoices are simply quotations used to resemble commercial invoices. They are often rendered in advance of shipment, in order to obtain pre-payment or to arrange for letters of credit.

Similar to a commercial invoice, a pro-forma invoice will include the customer's name and address, any parties involved in the transaction if different from the customer, the terms of the sale and the terms of the payment. It should itemize each item quantity with its unit price as well as an extension for each item quoted. Item totals should also be included.

Packing List

A packing list is necessary when multiple packages are shipped, unless the commercial invoice provides the required information. The list should include the volume and number of packages within one case, and the net, gross and legal weights of each case and of the total shipment.

Bill of Lading

The bill of lading is the shipper's acknowledgment of receipt of the shipment. Each shipment may contain a set of bills of lading, one copy of which should be kept on file, while other copies are sent to the importer and customs broker (if applicable), respectively. The bill of lading should include:

- description of the product(s);
- weights and measurements of the packages and their types;
- ports of origin and destination;
- names and addresses of shipper, importer and customs broker;
- any freight or other charge incurred;
- number of bills of lading in the full set; and
- the carrier's acknowledgment of receipt "on board" of the goods for shipment.

Depending on the product, it may be necessary for exporters to include storage temperature and requirements on the bill(s) of lading.

Certificate of Origin

A certificate of origin verifies that the goods originate in Canada and are therefore subject to all duties or taxes that apply to Canadian products.

Export Declaration Form

Exporters whose shipments have a value of $2000 or more must complete an Export Declaration Form (Form B-13). Although exporters are technically responsible, agents, brokers or carriers typically complete the form and submit it on behalf of the exporter.

Import Quota Certificate

An import quota certificate is required for all general commodities. This document is also required to apply for an import licence, which must be obtained if the importer is not registered as a national foreign trade corporation.

Additional Information

Where applicable, inspection certificates issued by the CIQ-SA or its local bureau are required. Any special requirements should be spelled out in the importing contract for each transaction.

In general, exporters must comply with the instructions of the importer or shipper regarding the required number of copies of each document. The information in each document should correspond exactly to the details contained in other documents for the same shipment. The description of the goods must be clear and concise, and must incorporate all relevant details and costs. An official of the exporting firm (or authorized agent) is required to sign the respective documents.

Mail and parcel post shipments require postal documentation and air cargo shipments require air waybills in place of bills of lading. A caption reading "The People's Republic of China" should appear on the documentation, and all parcels should be sealed.

Authentication of documents

The Chinese government requires that some documents be authenticated, such as certificates of sale and letters authorizing an exporter's local agent or importer to act on their behalf. Documents must first be notarized in Canada, then can be authenticated, at no cost, by sending them to the Authentication and Service of Documents (JLAC) division, Department of Foreign Affairs and International Trade.

Export Credit Risks, Restrictions on Letters of Credit or Currency Controls

One of the greatest risks to Canadian exporters involves the receipt of payment. Conditions of payment should be clearly outlined and mutually agreed upon by both the Canadian exporter and the Chinese business associate before any products are shipped.

Generally, the three methods of payment used by exporters to China are:

- payment upon receipt of shipment;
- delay of payment (payment is made after a set number of days — e.g. 30 or 60 days); or
- consignment.

Consignment is widely used by exporters who are entering the Chinese market for the first time. Consignment essentially allows Chinese retailers to attempt to sell a new product to consumers without a finalized agreement with the foreign supplier. By using this method of payment, the Canadian exporters and their Chinese counterparts can assess whether or not a product has been accepted by consumers (after an agreed-upon period of time), after which details to complete the transaction can be arranged.

Payment for products which must be sold relatively quickly after their arrival, such as live seafood, is usually made before the product is shipped. Cash, wire transfer, or letters of credit are all common forms of payment for this type of product. Wire transfers, which are only used for transactions that are low in both value and volume, are inexpensive and easy to arrange through the Bank of China. A letter of credit, on the other hand, can be expensive and may take a long time to process. However, this form of payment is recommended as it guarantees Canadian exporters that they will be paid within a set period of time. Letters of credit account for almost 80% of all export financing and payment transactions to China.

Canadian exporters are advised to contact EDC, which offers insurance programs to protect Canadian exporters against non-payment by Chinese buyers.

PROMOTIONAL EVENTS

Event/Description	Organizer
SIAL China 2001 April 10-13, 2001 (Biennial) China Everbright Exhibition Centre Shanghai, China A wide variety of foods on display, both commodities and value-added products.	Exposium 1 Rue du Parc F-92593, Levallois-Perret Cedex, France Tel.: (33-1) 49-68-51-00 Fax: (33-1) 47-37-74-38 Internet: http://www.exposium.fr E-mail: sial@sial.fr
Agro-Foodtech China April 24-26, 2001 (Annual) China international Exhibition Centre Beijing, China Agricultural machinery and supplies, animal breeding, food processing and supplies.	As above
Agro Expo China – Shanghai March 14-16, 2001 TBD Shanghai, China The country's leading and longest running agriculture trade event will make its Shanghai debut. The show focusses on the latest products and technologies in agriculture/agribusiness, animal husbandry, agriculture machinery and poultry, swine and livestock development, equipment and marketing.	E.J. Krause & Associates, Inc. Capital Mansion Suite 2005 6 Xin Yuan Nan Rd. Chaoyang District Beijing, China 100004 Tel.: (86-10) 8451-1832 Fax: (86-10) 8451-1829 Email: ejk@public3.bta.net.cn
Food China August 28-31, 2001 (Annual) Shanghai Mart Shanghai, China Foods and beverages, services and equipment related to food processing and services.	Hong Kong Exhibition Services Ltd. 9th Floor Shiu Lam Building 23 Luard Rd. Wanchai, HK Hong Kong Tel.: (852) 2804-1500 Fax: (852) 2528-3103 Internet: http://www.montnet.com E-mail: exhibit@hkesmontnet.com.hk
Foodex China September 5-8, 2000 (Annual) China International Exhibition Centre Beijing, China Food, food processing, packaging, laboratory equipment, beverage and brewery supplies and equipment.	Union Fair and Trade Co. Ltd. Flat A&B, 2/F Haoling Mansion 122-130 SieYou XinMa Lu Guangzhou 510600, China Tel.: (86-20) 8736-1889 Fax: (86-20) 8736-1350

Interfood Shanghai October 9-12, 2000 (Biennial) Shanghai Everbright Convention and Exhibition Centre Shanghai, China Food and beverages, processing machinery and equipment.	Hong Kong Exhibition Services Ltd. 9th Floor Shiu Lam Building 23 Luard Rd. Wanchai, HK Hong Kong Tel.: (852) 2804-1500 Fax: (852) 2528-3103 E-mail: exhibit@hkesmontnet.com.hk
Food Ingredients China May 15-18, 2001 (Biennial) Shanghai Mart Shanghai, China Food and beverage ingredients, flavours, colourings and other products.	HQ Link Pte. Ltd. 150 South Bridge Rd. 1301 Fook Hai Building SGP-Singapore 058727 Tel.: 534-3588 Fax: 534-2330 E-mail: hqlink@singnet.com.sg
Foodtec China May 29 - June 1, 2001 Shanghai Everbright Convention & Exhibition Centre Shanghai, China Food processing equipment, systems and technologies.	Intex Shanghai Co. Ltd. 88 Lou Shan Guan Rd. Shanghai 200336, China Tel.: (86-21) 6275-5800 Fax: (86-21) 6275-7210 E-mail: intexcax@public4.sta.net.cn
China Fisheries & Seafood Expo November 1-3, 2000 (Annual) China International Exhibition Centre Beijing, China China's biggest seafood trade show attracting numerous seafood importers, wholesalers and processors.	Sea Fare Expositions, Inc. 1553 NW Ballard Way, Suite 200 Seattle, WA 98107 Tel.: (206) 789-5741 Fax: (206) 789-0504 Internet: http://www.seafare.com E-mail: china@seafare.com
Food & Hotel China 2001 August 28-31, 2001 Shanghai Everbright Convention & Exhibition Centre Shanghai, China An annual show for professional buyers only. A wide variety of food and beverage products on display. The Canadian Consulate General in Shanghai organises a Canadian national pavilion for this event.	Hong Kong Exhibition Services Ltd. 9th Floor Shiu Lam Building 23 Luard Rd. Wanchai, HK Hong Kong Tel.: (852) 2804-1500 Fax: (852) 2528-3103 E-mail: exhibit@hkesmontnet.com.hk

China Brew & Beverage September 26-30, 2000 (Biennial) China International Exhibition Centre Beijing, China Production technology, bottling and packaging machinery, raw materials, and additives.	Business & Industrial Trade Fairs Ltd. Unit 1223 HITEC 1 Trademart Drive, Kowloon HK, Hong Kong Tel.: (852) 2865-2633 Fax: (852) 2866-1770 E-mail: enquiry@bitf.com.hk
China Foodtech October 30 - November 3, 2001 (Biennial) China International Exhibition Centre Beijing, China International food processing and packaging machinery exhibition.	CIEC Exhibition Co. Ltd. Harbour Centre 25 Harbour Road, Room 1909 Wanchai, Hong Kong Tel.: (852) 2827-5078 Fax: (852) 2827-5535 E-mail: ciechk@ciec.com.hk
China Wine November 20-23, 2001 (Annual) China International Exhibition Centre Beijing, China Wine, spirits, and beer technology exhibition.	Adsale Exhibition Services Ltd. 4th Floor Stanhope House 734 King's Road, North Point HK, Hong Kong Tel.: (852) 2811-8897 Fax: (852) 2516-5024 E-mail: aes@adsaleexh.com
PFP - China Drinktec March 6-9, 2001 (Annual) China Foreign Trade Centre Guangzhou, China Beverage processing, equipment, machinery and production technology.	Same as above.
Supermarket China August, 2001 (Annual) Shanghai International Exhibition Centre Shanghai, China A variety of fresh and processed foods including beverages, confectionery, frozen foods, dairy products, meats, and wines.	Keylong Exhibition Services Co. Ltd. E19B Strength Plaza New Hongqiao Business Square 600 Tianshan Road Shanghai, 200051, China Tel.: (86-21) 5289-6776 Fax: (86-21) 5289-6066 E-mail: keylong@public.sta.net.cn
FIA - China April 3-5, 2001 (Annual) Shanghai Everbright Convention & Exhibition Centre Shanghai, China Ingredients, flavourings, semi-processed products, colourings, preservatives, equipment etc.	Miller Freeman Asia Ltd. China Resources Building, 17th Floor 26 Harbour Road Wanchai, Hong Kong Tel.: (852) 2827-5121 Fax: (852) 2827-7064

Bevtek & Brewtek China May 15-18, 2001 (Annual) Shanghai Mart Shanghai, China Bottling, filtering, labelling and processing and packaging technologies.	Hong Kong Exhibition Services Ltd. 9th Floor Shiu Lam Building 23 Luard Rd. Wanchai, HK Hong Kong Tel.: (852) 2804-1500 Fax: (852) 2528-3103 E-mail: exhibit@hkesmontnet.com.hk
Food Ingredients China May 15-18, 2001 (Annual) Shanghai Mart Shanghai, China Food ingredients, flavourings, colourings, etc.	Same as above.
Confectionery China August 28-31, 2001 (Annual) Shanghai Everbright Convention & Exhibition Centre Shanghai, China Machinery, equipment and products related to the bakery and confectionery industries.	Same as above.
IFF China June 5-8, 2001 and May 14-17, 2002 (Annual) China International Exhibition Centre (2001) Shanghai Everbright Convention & Exhibition Centre (2002) Show alternates between Beijing and Shanghai International fancy food exhibition and conference. Includes a wide variety of foods and beverages.	China International Exhibition Centre (CIEC) 6 East Beisanhuan Road Chaoyang District Beijing, 100028, China Tel.: (86-10) 8460-2055 Fax: (86-10) 6467-6811 E-mail: ciec-marketing@beijing.china.com

KEY CONTACTS AND SUPPORT SERVICES

Canadian Embassy
19 Dongzhimenwai Dajie
Chaoyang District
Beijing, 100600, China
Tel.: (86-10) 6532-3536
Fax: (86-10) 6532-4072
E-mail: bejing-td@dfait-maeci.gc.ca
Internet: http://www.canada.org.cn
Contact: Mr. Bruce Howard

Canadian Consulate in Chongqing
Suite 1705, Metropolitan Tower
Wu Yi Lu, Yu Zhong District
Chongqing, 400010, China
Tel.: (86-23) 6373-8007
Fax: (86-23) 6373-8026
E-mail: cdncon@public.cta.cq.cn
Internet: http://www.canada.org.cn

Canadian Consulate General in Guangzhou
Suite 801, China Hotel Office Tower
Liu Hua Lu
Guangzhou, 510015, China
Tel.: (86-20) 8666-0569
Fax: (86-20) 8667-2401
E-mail: gzconcan@public.guangzhou.gd.cn
Internet: http://www.canada.org.cn
Contact: Fay Wu

Canadian Consulate General in Shanghai
Tower 4, Suite 604
Shanghai Centre
1376 Nanjing Xi Lu
Shanghai, 200040, China
Tel.: (86-21) 6279-8400
Fax: (86-21) 6279-8401
E-mail: shngi@dfait-maeci.gc.ca
Internet: http://www.canada.org.cn
Contact: Mr. Henry Deng

Canadian Consulate General in Hong Kong
13th Floor, Tower 1
Exchange Square
8 Connaught Place
Central, Hong Kong
Tel.: (852) 2847-7414
Fax: (852) 2847-7441
E-mail: canadatrade.hkong@dfait-maeci.gc.ca
Internet: http://www.canada.org.cn
Contact: Mr. Houston Wong

Department of Foreign Affairs and International Trade (DFAIT)
125 Sussex Dr.
Ottawa, ON K1A 0G2
Internet: http://www.dfait-maeci.gc.ca

Authentication and Service of Documents (JLAC)
Tel.: (613) 992-6602
Fax: (613) 992-2467

China and Mongolia Division (PCM)
Tel.: (613) 996-0905
Fax: (613) 943-1068

Market Support Division (TCM)
Tel.: (613) 995-1773
Fax: (613) 943-1103

Tariffs and Market Access Division (EAT)
Tel.: (613) 992-2177
Fax: (613) 992-6002 or (613) 944-4840

Agriculture and Agri-Food Canada
International Markets Bureau
930 Carling Ave. 10th Floor
Ottawa, ON K1A 0C5
Contact: Jane Morisset
Tel.: (613) 759-7637
Fax: (613) 759-7506
E-mail: morissetj@em.agr.ca
(See also regional contacts, below)

Canadian Commercial Corporation (CCC)
Metropolitan Centre
50 O'Connor St., 11th Floor
Ottawa, ON K1A 0S6
Tel.: 1-800-748-8191 or (613) 996-0034
Fax: (613) 995-2121
E-mail: info@ccc.ca
Internet: http://www.ccc.ca

Export Development Corporation (EDC)
151 O'Connor St.
Ottawa, ON K1A 1K3
Tel.: 1-800-850-9626 or (613) 598-2500
Fax: (613) 598-6697
E-mail: export@edc4.edc.ca
Internet: http://www.edc.ca

Canadian Food Inspection Agency (CFIA)
59 Camelot Dr.
Nepean, ON K1A 0Y9
Tel.: (613) 225-2342
Fax: (613) 228-6653
E-mail: cfiamaster@em.agr.ca

Agriculture and Agri-Food Canada – Regional Trade Contacts

Renee Umezuki
New Westminster
Tel.: (604) 666-7903

Mike Southwood
Edmonton
Tel.: (780) 495-5528

Brenda Patton
Regina
Tel.: (306) 780-7071

Bernard Mallet
Fredericton
Tel.: (506) 452-3732

Chris Pharo
Charlottetown
Tel.: (902) 566-7310

Dan Wuerch
Winnipeg
Tel.: (204) 984-4230

Frank Webster
Guelph
Tel.: (519) 837-5854

Robert Bouchard
Montreal
Tel.: (514) 283-3815

Janet Steele
Halifax
Tel.: (902) 426-2221

Al McIsaac
St. John's
Tel.: (709) 772-0330

International Trade Centres

For export counselling or publications for Canadian exporters, contact a local International Trade Centre by calling 1-888-811-1119.

Export-Oriented Canadian Food Industry Associations

A detailed list of both provincial and national Canadian food industry associations can be found on the Agriculture and Agri-Food Web site at: http://atn-riae.agr.ca/public/associations-e.htm.

Alliance of Manufacturers & Exporters Canada
75 International Blvd., 4th Floor
Toronto, ON M9W 6L9
Tel.: (416) 798-8000 or (613) 563-9218
Fax: (416) 798-8050
E-mail: national@the-alliance.com
Internet: http://www.the-alliance.com

Atlantic Canada Export Club
24 Pictou Rd.
Truro, NS B2N 2R8
Tel.: (902) 893-7539
Fax: (902) 893-7041
E-mail: atlcanadaexport@ns.sympatico.ca
Internet: http://www.atlcanadaexport.ca

Canadian Food Exporters Association
885 Don Mills Rd., Suite 301
Don Mills, ON M3C 1V9
Tel.: 1-888-227-8848 or (416) 445-3747
Fax: (416) 510-8044
Contact: Susan Powell
E-mail: susanp@cfea.com
Internet: http://www.cfea.com

Food Beverage Canada
17311 – 103rd Ave., Suite 201
Edmonton, AB T5S 1J4
Tel.: 1-800-493-9767 or (780) 486-9679
Fax: (780) 484-0985
Internet: http://www.foodbeveragecanada.com

Food Institute of Canada (FIC)
1600 Scott St., Suite 415
Ottawa, ON K1Y 4N7
Tel.: (613) 722-1000
Fax: (613) 722-1404
Internet: http://foodnet.fic.ca

Quebec Agri-Food Export Club
200 MacDonald St., Suite 102
St. Jean-sur-Richelieu, QC J3B 8J6
Tel.: (514) 349-1521
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China Health Food Association
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Institute of Food Safety Control and Inspection
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State Administration for Entry-Exit Inspection and Quarantine (CIQ-SA)
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Department for Supervision on Certification
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Fax: (86-10) 6418-1597
E-mail: webmaster@asc-wines.com
Internet: http://www.asc-wines.com

Beijing Foreign Trade Food Service Corporation
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China Foods Industrial Group
No. 45 Fuxingmennei Street
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Dah Chong Hong Shanghai Co., Ltd.
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Shanghai Import Food Enterprise Association
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Internet: http://www.intl.abocn.com
Branch Offices: Guangzhou; Shanghai; Shenzhen; Tianjin.

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Internet: http://www.bank-of-china.com/

Bank of East Asia LTD
299 Szechuen Road
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Fax: (86-21) 6329-1813
Branch Offices: Dalian; Guangzhou; Shenzhen; Xiamen; Beijing; Fuzhou; Qingdao

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Fax: (86-10) 6510-2450
Branch Offices: Beijing, Guangzhou

Industrial and Commercial Bank of China
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Haidian District
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Fax: (86-10) 6821-7920
Internet: http://www.icbc.com.cn
Branch Offices: Beijing; Guangzhou; Shenzhen; Shanghai; Alma-Ata (Kazakhstan); Singapore.

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Internet: http://www.hangseng.com/hse.html

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OTHER REFERENCE MATERIAL

Internet Sites

Agri-Food Trade Service: **http://ats.agr.ca**

Asiagateway.com: **http://events.asiagateway.com/China**

Canada Business Service Centres: **http://www.cbsc.org**

Canada's Offices in China: **http://www.china.gc.ca**

Canadian Food Inspection Agency: **http://www.cfia-acia.agr.ca**

Canadian Food Trade Alliance: **http://www.cfta.ca**

China – Cities and Provinces: **http://www.tdctrade.com/mktprof/china.htm**

China Council for the Promotion of International Trade:
http://www.ccpit.org/engVersion/indexEn.html

China: Market News and Information: **http://www.agric.gov.ab.ca/marketnews/index_china.html**

China Ministry of Foreign Trade & Economic Cooperation: **http://www.moftec.gov.cn**

China: Project Profiles: **http://www.adb.org/Documents/Profiles/ctry.asp?ctry=47**

China Stats: **http://www.stats.gov.cn/year book/indexE.htm**

Department of Foreign Affairs and International Trade: **http://www.dfait.m aeci.gc.ca**

Electronic Journal of Biotechnology: **http://www.ejb.org**

Embassy of the People's Republic of China in Canada: **http://www.chinaembassycanada.org**

ExpoGuide: **http://www.expoguide.com**

ExportSource: **http://exportsource.gc.ca**

FarmChina.com: **http://www.farmchina.com/**

Strategis: **http://strategis.ic.gc.ca**

Tradeport: **http://www.tradeport.org**

Trade Show Central: **http://www.tscentral.com**

Trade Show News Network: **http://www.tsnn.com**

The United States-China Business Council: **http://www.uschina.org /links.html**

READER EVALUATION

Please help the Market Research Centre to produce market reports which meet your information needs by completing this evaluation form and returning it by fax (613) 943-1103. Thank you for your valuable input.

1. How did you obtain a copy of this market report?
   - ☐ InfoCentre FaxLink system
   - ☐ InfoCentre help line
   - ☐ Local government office
   - ☐ Government Internet site
   - ☐ Other: _____

2. How would you describe this market report?

	Strongly agree	Agree	No opinion	Disagree	Strongly disagree
Useful	☐	☐	☐	☐	☐
Complete	☐	☐	☐	☐	☐
Well organized	☐	☐	☐	☐	☐
Well written	☐	☐	☐	☐	☐
Ideal length	☐	☐	☐	☐	☐

3. In what form do you prefer to obtain these reports?
   - ☐ Print
   - ☐ Electronic

4. Based on the information in this report, what specific action(s) does your organization plan to take in this market? Check all that apply.
   - ☐ Seek an agent/distributor
   - ☐ Visit the market
   - ☐ Do more research
   - ☐ Other: _____
   - ☐ Contact Canadian trade office abroad
   - ☐ Participate in a trade show abroad
   - ☐ Nothing

5. What other market reports would be of benefit to your organization? Please identify specific products and countries. _____

6. Which of the following categories best describes your organization? Check one only.
   - ☐ Processor/manufacturer
   - ☐ Trading house
   - ☐ Export service provider
   - ☐ Industry/trade association
   - ☐ Government
   - ☐ Student/academia
   - ☐ Consultant
   - ☐ Other: _____

7. What were your organization's total sales last year, in Canadian dollars?
   - ☐ Less than $10 million
   - ☐ More than $50 million
   - ☐ $10 million to $50 million
   - ☐ Not applicable

Additional comments/suggestions for improvement: _____

OPTIONAL — The name of your organization is: _____